

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

14 DECEMBER 2020

PROCUREMENT AND CONTRACT MANAGEMENT UPDATE

Report from Corporate Director, Strategic Resources

1. PURPOSE OF THE REPORT

- 1.1 To provide Members with an update on the work of the Procurement and Contract Management Service, including key achievements, recent activity and response to the Covid-19 pandemic.

2. BACKGROUND

- 2.1 The Council spends over £400m externally each year across both revenue and capital and it is the Council's responsibility to use this money in the best way possible to achieve its objectives, especially during these years of austerity.
- 2.2 The Council continues to have good visibility on where money will be spent in the upcoming months / years through the Forward Procurement Plans (FPPs). FPPs allow Directorates (and their corresponding Senior Category Manager) to have an oversight of approaching procurements. As a result, resources and specialist support is deployed appropriately to deliver good procurement and value for money across the Council's external expenditure.
- 2.3 This report will set out specific work and achievements of the Procurement and Contract Management Service this year, with a focus on the response to the Covid-19 pandemic.

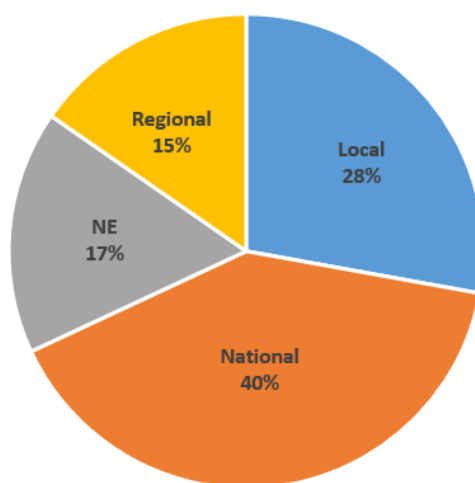
3. KEY ACHIEVEMENTS AND RECENT ACTIVITY

Responding to Covid-19 - Sourcing Personal Protective Equipment (PPE)

- 3.1 One key Covid-19 impacts on the Council was the surge in demand for PPE to protect staff against risk of infection. Requirements for PPE exponentially increased, with one Council supplier placing orders equal to 25 years' usage in March of this year. Due to a surge in worldwide demand, there was significant supply chain disruption and price instability. It is within this context the Council was operating when looking to source PPE.
- 3.2 In addition to the tragic loss of life, the pandemic has underlined the fragility of the networks and supply chains on which so much of business and society is built. The welfare of key workers in the Council has been the key priority, and as soon as the scale of the crisis became clear, orders for PPE were increased rapidly.

- 3.3 Supply of PPE equipment is almost totally reliant on a single source of production – China, where for example 95% of the world’s facemasks are produced. Resilience of supply was presumed rather than tested, and it soon became clear contracted suppliers were unable to meet demand.
- 3.4 Most Councils were buying from unknown (pre-crisis) suppliers with varying levels of success. Major pricing fluctuations are occurring on an hourly basis, in the case of hand sanitisers, by April prices had risen by an average of 367%. Added to this, the ability to check product specifications and certification at distance limited the ability to make sure what stock arrives is what we thought we had ordered. There is also evidence of organised crime becoming involved in supplying counterfeit PPE. This all added to the complexity of sourcing PPE in the market.
- 3.5 There are various examples in the press of public sector organisations, including central government, ordering PPE and then being delivered sub-standard product, or the products never turning up at all. No organisation was immune to the supply chain difficulties being experienced. To date, the Council has two ongoing queries on quality of goods ordered, representing less than 2% of the overall PPE purchased.
- 3.6 In the first weeks of the crisis, and with the failure of contracted suppliers, the Council began spot purchasing stock from any supplier who had available stock. A data model was created that allowed the Council to forecast usage using a number of parameters, including staff or service users and the items of PPE required per intervention or setting.
- 3.7 In effect, the Council set up a PPE sourcing, stock management and distribution system from scratch in a matter of weeks, and to date has spent over £4.1m on various items of PPE. This included 140 purchase orders. This was been done at pace and without any stock management software that would usually be required to manage the volume and complexity of the stock and distribution process. 28% of the spend has been with local suppliers, 15% with regional suppliers, 17% with suppliers in County Durham and Teesside, with 40% going to national suppliers.

Total Spend for PPE by locality



- 3.8 Since the start of the pandemic almost 4 million items of PPE have been distributed to 67 sites across North Yorkshire, and includes 1 million facemasks, 1 million aprons and just under 10,000 litres of hand sanitiser. On average 282,000 items of PPE are being distributed on a weekly basis.

- 3.9 The Council never ran out of PPE at any point during the pandemic, and by the summer had secured stock to cover the Council needs based on forecasted usage, up to the end of March 2021. Currently the Council holds around 8.4 million items of PPE in stock at a secure storage location.

Responding to Covid-19 – Supply Chain Resilience

- 3.10 The Covid-19 outbreak had a profound and far-reaching impact across all areas of life in the UK, including the supply chains that the Council relies upon to support and at times deliver services. It was inevitable that the Council would experience significant supply chain disruption and price instability, and this would have the knock on effect of creating the risk that suppliers in our supply chains would suffer financial distress and possible bankruptcy.
- 3.11 Supply chain resilience arrangements were put in place immediately due to the Covid-19 outbreak. This included pre-emptive targeted support for the Council supply chain and supplier relief due to Covid-19. The intention of these interventions were to secure Council supply chains, ensure service continuity during and after the Covid-19 outbreak and to ensure suppliers at risk would be in a position to resume normal contract delivery once the outbreak was over.
- 3.12 In response to the profound risks to the Council supply chains, and along with guidance from the Cabinet Office in the form of Procurement Policy Note (PPN) 02/20 - Supplier relief due to Covid-19, the Procurement & Contract Management Service set up a Supply Chain Resilience process in a matter of weeks.
- 3.13 This included setting up a Supply Chain Resilience Board which was a weekly decision making and monitoring board made up of the Corporate Director Strategic Resources (Chair), Assistant Chief Executive (Legal), Assistant Directors Strategic Resources, Head of Procurement and Contract Management, Procurement Governance & Development Manager, and Senior Category Managers. Directorate nominated supply chain contacts and contract managers, including Adult / Children's Social Care, Transport, Social Care, Technology and others attended as and when required.
- 3.14 The intention was to take a proportionate approach and triage suppliers that most needed financial support or could secure and stabilise the key Council supply chains. The first part of the work on supply chain resilience was support for small and medium size enterprises. Very early in the outbreak, the Council agreed to pay all its small and medium size enterprises immediately in an effort to help improve cash flow and ensure businesses did not collapse. This support for the smaller businesses that supply the Council, who are usually paid within 30 days, demonstrated how important they are to our service delivery and the economic vitality of the county. This support will continue until the end of the calendar year.
- 3.15 The central governance, coordination and challenge provided the opportunity to give complex financial issues proper consideration and colleagues from across the Council collaborated to deliver the right outcomes for the Council and its supply chains. The process is detailed in **Appendix 1**.

3.16 The procurement policy changes and guidance provided by Cabinet Office were unprecedented, and the Council reacted at speed. Supplier relief fell into four categories:

1. **Immediate payment terms** – *If the supplier was deemed a small or medium size enterprise, they were moved to immediate payment terms at once.*
2. **Support & Funding on an agreed % sliding scale basis** - *As the Covid-19 outbreak spreads and its impact on service delivery increases there will be a number of providers, who for a variety of reasons will be unable to deliver their contracted services. In ordinary circumstances, this would result in a removal of all payments. These payments may turn out to be payments on account in the same way as option 3. However, further analysis of suppliers / providers may identify some as “high risk” which may result in them requiring additional financial support. Treatment can then be considered on a case-by-case basis such as in option 3 below.*
3. **Payments on account** – *it was proposed that all NYCC suppliers / providers should be able to submit a claim for an up-front payment on account equivalent to a maximum of what NYCC would have normally expected to pay for their services in April – June 2020. During this period, providers should continue to submit bills for actual services delivered. Payments for these services would only be made once the value of actual services delivered exceeds the payment on account. If at the end of June 2020, the value of services actually delivered does not exceed the payment on account, then NYCC will need to agree with suppliers / providers how to manage future payments. This could include agreeing to write off the difference (i.e. in effect this would become a hardship payment) and / or making a further payment on account. As the end of the first quarter of 2020/21 approaches, NYCC could consider whether it wishes to put in place arrangements for another set of payments on account for a further period.*
4. **Hardship payments** – *it was proposed that all NYCC suppliers / providers are able to submit claims setting out the additional costs and / or loss of funding they have suffered as a result of Covid-19. NYCC will review these claims and subject to consideration of other means available to suppliers / providers to mitigate cash flow pressures, will consider making hardship payments to sustain supplier / provider viability. These payments would be goodwill gestures and organisations would not be expected to repay them. A robust process would be established for assessing and recording claims with a clear audit trail. Any payments would be reviewed and agreed at the weekly Supply Chain Resilience Board.*

3.17 The Council were the first in the region and one of the first in the country to mobilise a supplier relief process, and many Councils nationally copied the process we developed, including some deemed leaders in local government.

3.18 In total, 662 Council suppliers received some form of supplier relief, to a value of around £6.4 million. In addition, 1,000 SME suppliers have benefitted from immediate payments since April.

Brexit

- 3.19 The UK has left the EU and we are fast approaching the end of the transition period. As it currently stands it is unclear if a trade deal with the EU will be agreed, therefore, there is still a real possibility of a no-deal Brexit in January 2021.
- 3.20 In the event of a no-deal Brexit, it is highly likely the Council would start to see significant price uncertainty and increases in some supply chains, which could be very difficult to accommodate. Some suppliers may well suffer price pressure and distress in their own supply chains, while others may use the cover of price fluctuations from currency / tariff related issues to implement unwarranted price increases.
- 3.21 As part of prudent and proportionate planning, the Procurement and Contract Management Service have implemented an emergency addition to the current Procurement Gateway Process. This additional process is aimed at mitigating uncontrolled acceptance of contract price increases due to price fluctuations from currency / tariff related issues, real or otherwise. In summary, the initial answer to any contract variation price increases is no, unless it can be demonstrated as fair and reasonable in line with the contract price clauses, and most importantly is affordable to Council.
- 3.22 In addition, the Council continues to take steps to carry out sensible and proportionate planning for the anticipated outcome of trade deal negotiations. As part of this work, the Procurement and Contract Management Service are ensuring key suppliers are taking a managed approach to business continuity and financial resilience.

Leadership

- 3.23 The Council continues to play a leading role in procurement and contract management, both regionally and nationally. The Council chairs the YorProcure Strategic Procurement Group of twenty-five public sector bodies in the Yorkshire and Humber region, and represents the region on the Local Government Association National Advisory Group for Procurement, and the Cabinet Office Public Sector Procurement Working Group.
- 3.24 The Procurement and Contract Management Service recently were Highly Commended for the Team of the Year Award for Local Government at the GO National Awards. The awards are the UK's premier procurement awards, recognising outstanding achievement in procurement across the public sector. The team were also shortlisted for Leadership of the Year for Procurement in Local Government.
- 3.25 To further increase capability and achievement in contract management, this year the Procurement and Contract Management Service has developed and released online contract management training and an associated toolkit for Council contract managers. This will help deliver increased value from Council contracts.

4. PROCUREMENT AND CONTRACT MANAGEMENT STRATEGY PROGRESS

- 4.1 The Procurement and Contract Management Strategy takes into account the need to consider procurement much more widely than the sourcing, evaluation and award processes and is summed up in the vision statement which is:

“Working collaboratively to deliver efficiencies, value for money and sustainable quality through a proactive commercial approach to procurement and commissioning for the communities of North Yorkshire.”

The strategic aims, objectives and priorities are identified and described under 6 themes, which are:

- 1) **Category Management**
- 2) **Technology**
- 3) **Policy and Process**
- 4) **Contract Management**
- 5) **People and Skills**
- 6) **Social Value**

4.2 These themes are not designed to work in isolation, and there are a number of positive ambitions associated with these themes which being delivered over the life of the strategy:

- Master category sourcing plans – People, Place & Professional
- Unparalleled increase in supply chain intelligence and understanding
- Achieve savings and value for money for the communities of North Yorkshire
- Support the delivery of quality outcomes for service users
- Support the wider ambitions of the Council and its partners
- Develop a very deep understanding of user needs
- Influence and operate commercially, understanding supply market capabilities.
- Practice robust contract management
- Attract suppliers of all sizes and from all sectors to want to work with the Council
- Attract procurement professionals to want to work for the Council, and
- Be recognised nationally as a procurement centre of excellence and expertise.

4.3 The Strategy complements and supports the ongoing transformation work at the Council, helps ensure that commercial arrangements and contracts awarded by the Council provide the very best value for money. We also use our procurement spend to provide the very best social value for our communities.

4.4 The procurement and contract management strategy is being monitored through a series of key performance indicators covering the activities detailed in the Strategy Action Plan. The Corporate Procurement Board is accountable for the delivery of the Action Plan and monitors Key Performance Indicators on a quarterly basis.

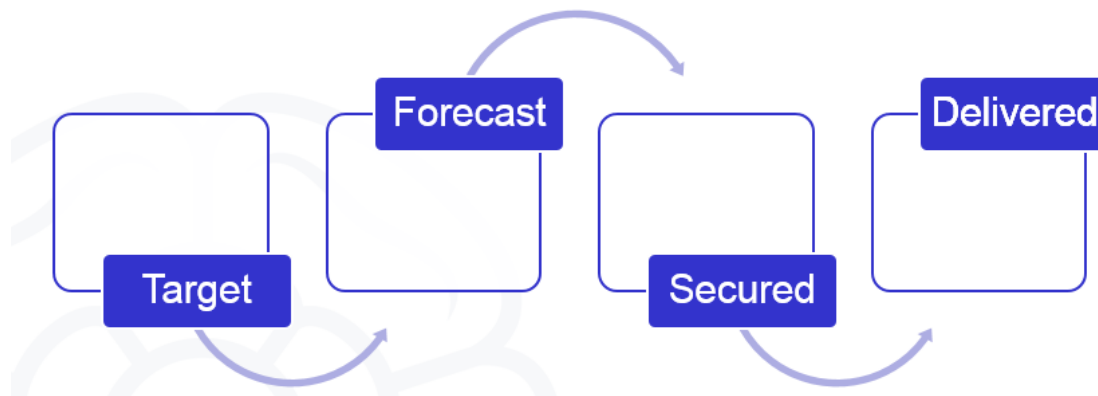
4.5 The latest Procurement and Contract Management Strategy Action Plan KPI figures can be found in **Appendix 2**.

2020 Savings

4.6 Throughout the Strategy’s life and its progression there were a number of overarching corporate priorities. These include procurement savings which were set at an additional £1.15m by the end of 2020. This is the first time that the procurement function has been given a target to reduce budgets by a cash target, as previously savings were recorded as procurement savings but remained cash reductions within Directorate budgets.

Procurement was therefore used as an enabler of savings, rather than a direct deliverer of savings.

4.7 The following approach is used to record procurement savings:



1. Target

At the very start of the procurement process there should be a target that applies to the project – this will be applicable normally only in the higher value tenders where detailed market analysis has taken place / is possible. This may be imposed (a Directorate or Service Area may have to maintain the same levels of service with a 5% drop in budget), or aspirational (aiming to achieve a 2% improvement on the current delivery cost).

2. Forecast

As the procurement proceeds through the ‘Discovery’ stage, market research and strategy development will give a more realistic overview of what savings and benefits may be achievable, enabling the tender process to begin with a fairly robust forecast of the expected benefits.

3. Secured

When bids / tenders are evaluated the decision to award a contract is based on a value judgment that indicates that the agreed contract will deliver certain benefits, as per the evaluation outcome. Once the contract is awarded, those benefits/savings are secured – that is, the contract will deliver them if it is managed, used and performs as expected.

4. Delivered

During the lifetime of the contract it is a key to ensure that the contract actually delivers the anticipated savings and benefits. Delivered savings are the most important savings as they are based on actual, bottom line savings that have impacted on the Council budget. Even if there have been challenges recording the savings before this stage, it is essential that this saving is recorded.

4.8 As of November 2020, the £1.15m savings have been delivered and work is ongoing on agreeing a new savings target up to 2024.

5. RECOMMENDATIONS

5.1 Through the Procurement and Contract Management Strategy we are committed to improving our approach to procurement and will continue to develop this approach over the coming years. We will ensure that our approach to procurement and contract

management is appropriately commercial and our processes stand up to scrutiny and challenge.

Audit Committee are requested to:-

- a) Note progress on key achievements and recent activity.
- b) Provide comments in order to further add value to the ongoing work on procurement and contract management, especially in relation to delivering the procurement and contract management strategy.

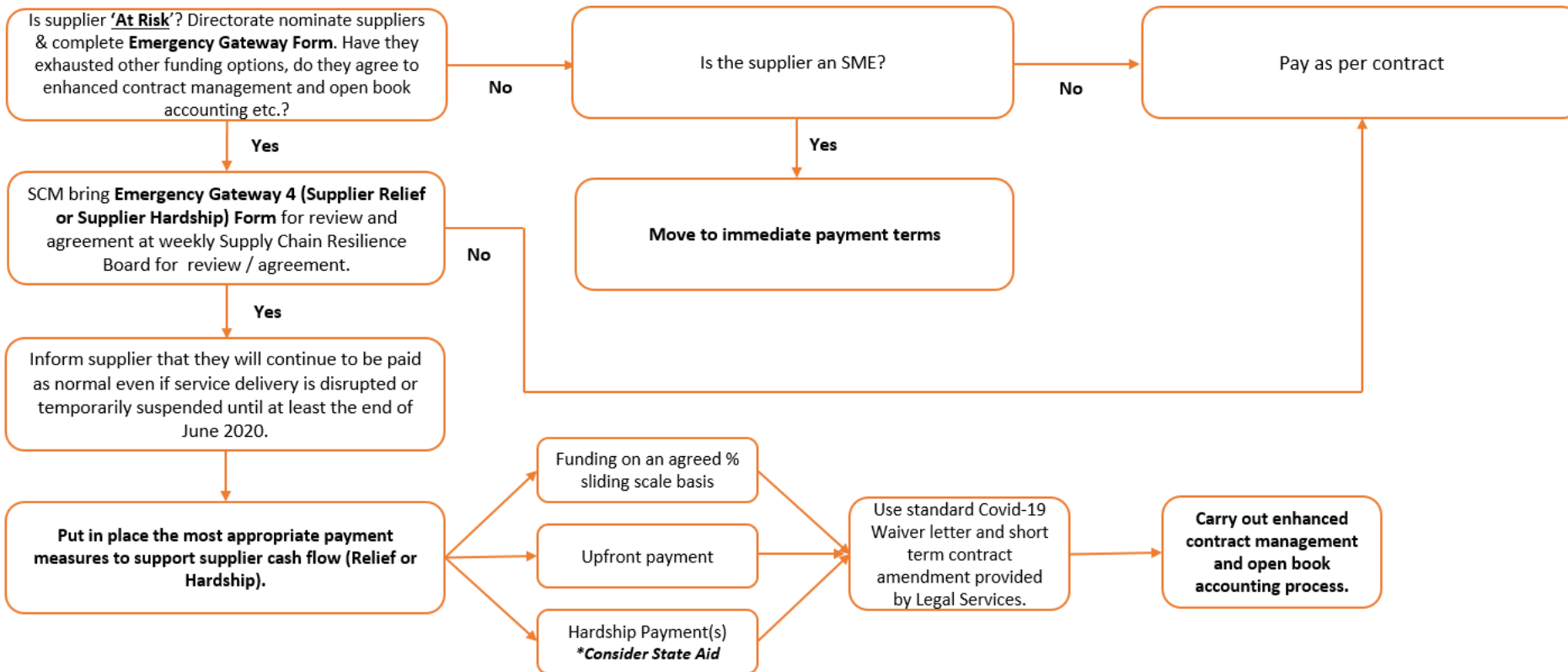
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26 November 2020

Appendix 1 – Supply Chain Resilience Process

Supply Chain Resilience Board – Supplier Relief Decision Process



Procurement and Contract Management Service



Appendix 2 – Procurement and Contract Management Strategy Action Plan KPI Figures

Theme group	KPI reference	Measure	Previous Year End Outturn Position	Target	Q1	Q2	Q3	Q4
Category Management	1.1	Delivery of annual Category Sourcing Plans	3	3	-	-		
Technology	2.1	% of categorised spend	100%	98%	99.7%	99.7%		
Technology	2.2	% P2P licence utilisation	82%	95%	82%	81%		
Technology	2.3	Number of purchase orders generated through P2P	1353	1753	669	998		
Policy and Process	3.1	Average days taken to complete OJEU procurements	107	115	92	113		
Policy and Process	3.2	% OJEU procurements meeting target 3.1	66%	80%	75%	67%		
Policy and Process	3.3	% PPNs reviewed and associated impact assessment reported to Procurement Assurance Board within 10 working days	100%	100%	100%	100%		
Policy and Process	3.4	% of suppliers who believe doing business with the council is clear, applies appropriate process and is flexible	50%	75%	67%	89%		
Policy and Process	3.5	% of suppliers who rated the Council's market engagement sessions as good or above	66%	75%	72%	82%		
Contract Management	4.1	% contract utilisation – on contract spend	85%	90%	78%	87%		
People and Skills	5.1	% biennial employee satisfaction	66%	75%	-	-		
People and Skills	5.2	% of operational procurement staff with, or working towards, CIPS accreditation or equivalent	77%	90%	77%	71%		
People and Skills	5.3	% role specific succession plans in place	0%	75%	0%	100%		
People and Skills	5.4	% customer satisfaction good or above	88%	90%	88%	100%		
Social Value	6.1	% of total Council spend with local suppliers	48%	50%	52%	52%		
Social Value	6.2	% of total Council spend with SME suppliers	56%	60%	52%	52%		
Social Value	6.3	% of total Council spend with voluntary and community sector	2.59%	5%	3.6%	2.9%		
Supply Chain Savings	7.1	Annual supply chain savings delivered	-	100%	-	-		